

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 2164**

August 5, 2011

**SUMMARY OF BILL:** Defines surplus state revenue as the amount of revenue derived from state sales and use taxes collected above the budgeted estimate as determined by the State Funding Board for a fiscal year. Requires the Commissioner of Finance and Administration, in consultation with the Commissioner of Revenue, to certify on April 15<sup>th</sup> of any fiscal year any surplus state revenue for the current fiscal year. Requires the Commissioners, in fiscal years that a surplus is certified, to notify the Governor, the Speakers of the Senate and House of Representatives, the State Treasurer, and the Commissioner of Revenue of the certified amount. Requires allocation of 50 percent of the certified surplus state revenue to a special reserve account for the purpose of awarding additional Tennessee Student Assistance Awards. Requires a rate reduction to the state sales tax levied on food and food ingredients for any fiscal year subsequent to surplus certification, to be implemented in 0.1 percent increments, sufficient to reduce total state sales tax collections by an amount equal to 50 percent of the certified amount. Requires the Commissioner of Revenue to publish the sales tax rate on food and food ingredients on the Department of Revenue website. Authorizes the Commissioner of Revenue to promulgate rules and regulations. Holds local governments harmless from the loss of state-shared sales tax revenue.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – A precise fiscal estimate for this bill cannot be determined because such impact is dependent upon future revenue collections and economic conditions. For every \$10,000,000 in certified surplus state revenue, there will be (1) a net decrease in state revenue to the General Fund of \$9,825,000, (2) an increase in state revenue of \$5,000,000 to a newly-created special reserve account earmarked for awarding additional Tennessee Student Assistance Awards, and (3) an increase in state expenditures of \$221,600 for holding local governments harmless from the loss of state-shared sales tax revenue. These impacts will occur in fiscal years subsequent to certifications of surplus state revenue.**

**Assumptions:**

- The fiscal impact is dependent upon two unknown factors: the frequency in which surplus state revenue is certified and the extent of certified surplus state revenue in any given fiscal year.

- For every \$10,000,000 in certified surplus state revenue, there will be a shift of \$5,000,000 ( $\$10,000,000 \times 50\%$ ) from general state government purposes to additional Tennessee Student Assistance Awards. As a result, there will be a decrease of \$5,000,000 to the General Fund and an offsetting increase of \$5,000,000 to a newly-created special reserve account.
- For every \$10,000,000 in certified surplus state revenue, there will also be a decrease in state sales tax revenue of \$5,000,000 ( $\$10,000,000 \times 50\%$ ) occurring in fiscal years subsequent to any surplus certification. This decrease will result from required tax rate reductions to the state sales tax levied on the retail sale of food and food ingredients.
- The current state sales tax rate levied on non-food goods and services is seven percent.
- In years that state sales tax rate reductions are implemented on the retail sale of food and food ingredients due to a certified surplus, 50 percent of tax savings will be spent on other sales-taxable goods and services. As a result, there will be an offsetting increase in state sales tax revenue estimated to be \$175,000 ( $\$5,000,000 \times 50\% \times 7.0\%$ ).
- In years that state sales tax rate reductions are implemented on the retail sale of food and food ingredients due to a certified surplus, the net decrease in state revenue to the General Fund will be \$9,825,000 ( $\$5,000,000 + \$5,000,000 - \$175,000$ ).
- No change to local option sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- In years that state sales tax rate reductions are implemented on the retail sale of food and food ingredients due to a certified surplus, there will be an increase in state expenditures to hold local governments harmless from the loss of state-shared sales tax revenue. The increase in state expenditures is estimated to be \$221,588 ( $\$4,825,000 \times 4.5925\%$ ).
- Any increase in state expenditures to publish sales tax rates levied on food and food ingredients and to promulgate rules and regulations are estimated to be not significant.

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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